

SCHEDULE P**Form 740**
42A740-PCommonwealth of Kentucky
REVENUE CABINET**KENTUCKY
PENSION INCOME EXCLUSION****► Attach to Form 740, 740-NP or 741.***Use this form to calculate excludable retirement income.***1997**

Enter name(s) as shown on tax return.

Your Social Security Number

PART I—FULLY EXEMPT RETIREMENT INCOME

1. Enter federal, Kentucky and Kentucky municipality public pension and retirement income and supplemental U.S. Railroad Retirement Board benefits included on federal Form 1040, line 16(b) (Form 1040A, line 11(b)). Also include federal or Kentucky disability retirement income included on federal Form 1040, line 7 (Form 1040A, line 7). Enter name of payer(s): ►	A. Spouse	B. Yourself
1		

PART II—PARTIALLY EXEMPT RETIREMENT INCOME

2. Enter the total of all other taxable retirement income reported on federal Form 1040, line 15(b) or 16(b) (Form 1040A, line 10(b) or 11(b)) not included in line 1 above. Also report other disability retirement income or deferred compensation included on federal Form 1040, line 7 (Form 1040A, line 7) (see instructions)	2			
3. Enter 75% (0.75) of line 2	3			
4. Enter the lesser of line 3 or \$18,750	4			

PART III—TOTAL TO BE EXCLUDED THIS YEAR

5. Add lines 1 and 4. Enter here and on Form 740, page 2, line 45 (Form 740-NP, page 2, line 42(b) or Form 741, line 8)	5			
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► Stop here unless you have a lump-sum distribution reported on Form 4972-K.**If line 2 is less than \$25,000 and you also report retirement income on Form 4972-K, complete Part IV.****PART IV—EXCLUDABLE LUMP-SUM INCOME**

	A. Spouse	B. Yourself
6. Subtract line 4 from \$18,750	6	
7. Enter the amount from Form 4972-K, line 10(a) plus line 11	7	
8. Enter 75% (0.75) of line 7	8	
9. Enter the lesser of line 6 or line 8	9	
<i>See specific instructions before completing lines 10 and 11.</i>		
10. Amount of line 9 to be applied to capital gain distributions. Enter here and on Form 4972-K, line 10(b)	10	
11. Amount of line 9 to be applied to regular lump-sum distributions. Subtract line 10 from line 9. Enter here and on Form 4972-K, line 14	11	

INSTRUCTIONS—SCHEDULE P

GENERAL INSTRUCTIONS

Beginning with 1995, part of most types of pension and retirement income is excluded from tax by Kentucky. This exclusion increases over three years, as shown in the following chart.

Year	Percent Excluded	Up to Maximum of
1995	25	\$ 6,250
1996	50	12,500
1997	75	18,750
1998 and later	100	35,000

This exclusion is for each taxpayer. A husband and wife may each claim the appropriate exclusion, regardless of filing status.

Types of Income Subject to Exclusion—All pension and retirement income paid under a written retirement plan is eligible for exclusion. This includes pensions, annuities, IRA accounts, 401(k) and similar deferred compensation plans, and other similar accounts or plans. As a general rule, if the income is reported on the federal income tax return, Form 1040, line 15 or 16; Form 1040A, line 10 or 11; or Form 4972, or is a disability retirement benefit or deferred compensation distribution reported on Form 1040, line 7; 1040A, line 7, then it qualifies for the exclusion. Form 740-NP filers report only pension income received while a resident of Kentucky.

LINE-BY-LINE INSTRUCTIONS

PART I—Enter on line 1 the federally taxable portion of all pension income paid by the federal government, by the Commonwealth of Kentucky, or by any Kentucky municipal or local government. Also include supplemental U.S. Railroad Retirement Board benefits reported on Form 1040, line 16b (Form 1040A, line 11b). These pensions are fully exempt from Kentucky income tax. Form 740-NP filers report only pension income received while a resident of Kentucky.

PART II—Enter on line 2 the amount reported on federal Form 1040 or 1040A of all **other** non-lump-sum pension and retirement income not reported on line 1. Also include amounts from Form 740, line 41 (Form 740-NP, line 45) that reflect pension and IRA bases differences. Form 740-NP filers report only pension income received while a resident of Kentucky.

Lines 3 and 4 calculate the limits to the exclusion for 1997.

Line 3—Multiply line 2 by 75 percent (0.75).

Line 4—The maximum exclusion is the lesser of the amount on line 3 or \$18,750. Enter the appropriate amount.

PART III—The total of lines 1 and 4 is your regular pension income exclusion for 1997. Enter on line 5 and as follows:

Form 740, line 45;

Form 740-NP, line 42(b); or

Form 741, page 1, line 8.

If you do not have a lump-sum distribution, Schedule P is now complete.

If you have a lump-sum distribution and line 2 of this form is less than \$25,000, complete Part IV.

PART IV—This section calculates the amount of your lump-sum distribution that can be excluded from Kentucky income.

Line 6—The maximum exclusion for 1997 is 75 percent of retirement income, limited to \$18,750. The amount available to apply to lump-sum distributions must be reduced by the amount of regular retirement income already excluded.

Line 7—Lump-sum distributions can be reported on Form 4972-K, lines 10(a) and 11. Combine these amounts and enter on line 7.

Carrying the allowed exclusion to Form 4972-K.

The excludable amount calculated on line 9 will usually give the most tax benefit if it is first applied to any capital gain distribution. It is allowable, however, to apply the amount on line 9 to line 10 or 11 in any combination you wish, so long as the amount applied does not exceed 75 percent of the distribution type to which it is applied.

Line 10—Enter the amount of line 9 to be applied to capital gain distributions. Recommended amount: 75 percent of Form 4972-K, line 10(a), but limited to no more than the amount on line 9 above.

Line 11—Subtract line 10 from line 9. (Cannot exceed 75 percent of Form 4972-K, line 11.)

The total of lines 10 and 11 should equal line 9.